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Joint Agency Release

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SALES PRACTICES FOR GOVERNMENT SECURITIES ADOPTED

The three federal bank regulatory agencies have approved final rules setting sales practices for banks that are registered government securities brokers or dealers. The rules are substantively identical to the National Association of Securities Dealers (NASD) Business Conduct and Suitability Rules and the NASD Suitability Interpretation that apply to nonbank brokers and dealers in government securities.

The rules adopted by the bank regulatory agencies:

- require a bank to observe high standards of commercial honor and just and equitable principles of trade in the conduct of its business as a government securities broker or dealer, and
- provide that a bank should have reasonable grounds for believing that a recommendation concerning government securities is suitable for a customer based on any facts disclosed by the customer concerning the customer's financial situation and other securities holdings. The bank also would have to make reasonable efforts to obtain information on the financial and tax status and investment objectives of a non-institutional customer before executing a recommended transaction.

The rules, which are being adopted under the Government Securities Act Amendments of 1993, also include an interpretation that provides guidance concerning the scope of a bank's suitability obligations when making recommendations to an institutional customer. The interpretation notes that the two most important considerations are the customer's capability to evaluate investment risk independently and the extent to which the customer is exercising independent judgement in evaluating a bank's recommendation.

The final rules provide consistent treatment to customers engaging in government securities transactions, regardless of whether the customer receives a recommendation from a bank or nonbank government securities broker-dealer.

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